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TAGS: ETRD EINV ECON EAGR GG RS

SUBJECT: TFGG01: IMPACT OF GEORGIA CONFLICT ON RUSSIA'S WTO ENTRY

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Classified By: DCM Eric S. Rubin for Reasons 1.4(b/d).

Summary

11. (C) Foreign Minister Lavrov stated August 14 that Western threats over WTO contradicted previous promises and that Russia was now convinced it would never be accepted into the WTO. These comments track with what GOR officials have told us privately (reftels). Local experts believe WTO accession is no longer a &priority8 for the GOR. They contend, however, that accession is still in Russia's best interests and that failure to enter would have a long-term negative impact on the competitiveness of Russia's economy. Russian accession is also in our long-term interest, speeding greater economic interaction and a more diversified, modern Russian economy. The GOR will likely seek to portray the U.S. as responsible and seek to delegitimize the WTO and perhaps the broader international financial architecture. End Summary.

Lavrov's Comments on WTO Accession

12. (SBU) Foreign Minister Lavrov told Russian radio station Ekho Moskvy August 14 that Western "statements that our (WTO) accession should be delayed because of events in Georgia sound strange" and "contradict basic logic, common sense and promises that were given by the governments of Western countries to Russia." He said Russia was in any event already frustrated with delays in WTO negotiations even prior to the Georgia conflict and was becoming convinced that it would never be accepted into the WTO.

13. (C) Lavrov's public comments track with what other government officials have told us privately (reftels). In a meeting with the Charge August 14, Presidential Assistant Arkadiy Dvorkovich said the GOR expected to be denied entry this year and implied the GOR would look to cast blame on the United States and others. Even prior to the outbreak of hostilities, Finance Minister Kudrin's Staff Assistant, Vadim Grishin, was pessimistic and complained about the absence of an agreement with the United States on state-owned enterprises. Both Dvorkovich and Grishin said the failure of Russia's WTO entry along with the collapse of the Doha round

would call into question the legitimacy of the WTO, a line which Lavrov also echoed.

Accession No Longer a GOR Priority

¶4. (C) Igor Nikolayev, Strategic Analysis Director for the business consulting firm FBK, told us the Georgia conflict meant that WTO accession would no longer be a critical objective for the GOR, even though the economic benefits of accession were clear. The chances of resolving Russia's bilateral differences with Georgia at the WTO would be incredibly complicated in the aftermath of the conflict. Ukraine might also now display solidarity with Georgia and ask for bilateral market access negotiations with Russia, further dimming Russia's hopes for a near term accession, in Nikolayev's view.

¶5. (C) Deutsche Bank Securities Chief Economist Yaroslav Lissovnik said that the Georgia conflict had strengthened the hand of hard-liners in the GOR at the expense of economic liberals, and that WTO entry, as well as needed tax, pension and other reforms, would no longer be GOR priorities in the near term.

But It Still Should Be

¶6. (C) Russian experts agree, however, that WTO entry would benefit Russia. Just before the conflict began, former

Economic Development Minister and Higher School of Economics Academic Adviser Yevgeniy Yasin told us August 7 that the benefits of WTO entry for all parties were obvious. The United States, EU and other WTO members would gain greater access to the Russian market, while Russia would become more integrated into the world trading system, and its domestic economy would develop and diversify.

¶7. (C) Yasin said the fear of some Russians that domestic industries such as agriculture would be harmed by WTO accession was exaggerated. Many Russian industries were already insulated from competition, either because of geography or because of a lack of competitors. Yasin said the Higher School of Economics had conducted a study with the World Bank that concluded that 20 percent of Russian manufacturers enjoyed a monopoly position in the Russian market, while 30 percent faced competition only from other Russian producers. WTO entry would help reduce Russia's economic isolation and hold out the prospect of bringing a healthy dose of competition to many industries.

¶8. (C) New School of Economics Professor Konstantin Sonin told us August 14 that with sales of commodities like oil and gas making up most of Russia's exports, Russia probably had less to gain immediately from WTO entry than most countries. However, Sonin said Russia would benefit over time from greater access to new markets, as Russia's economy diversified toward the production of more value-added goods.

¶9. (C) FBK's Nikolayev noted that the economic advantages of accession for both Russia and the rest of the world were obvious. For Russia, Nikolayev agreed with Yasin that a more competitive environment had to be created in many sectors of the Russian economy to improve its performance. FBK had recently conducted a poll in which 40 percent of Russian businesses stated that they had no commercial competitors. Clearly, WTO would help develop a more competitive economy.

Comment

¶10. (C) WTO accession likely has little short-term value as leverage with Russia over the Georgian conflict. The GOR has already accepted failure and is preparing to place the blame

on us, the Georgians, and anyone else who makes a politically appealing target. In fact, it has been apparent for some time that Russia suspected it might not accede this year and responded with protectionist measures on poultry imports, among other products, with threats of more to follow. The Russians are quite likely to seek allies in a concerted push to delegitimize the WTO and other IFIs, where they have been seeking a larger say for themselves and other emerging markets.

¶11. (C) That said, longer-term, Russia's economy would suffer, as needed modernization would be slowed and Russia would likely remain an exporter of resources rather than become a producer of value-added goods. Unfortunately, this might very well serve the interests of much of the governing elite, who are more interested in short-term gains and political and economic control than they are in growing and diversifying the economy. A more prosperous and integrated Russia is one that would have much more to lose.

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